



FEDERAL HOUSING FINANCE BOARD
OFFICE OF INSPECTOR GENERAL

Audit Plan

April 1, 2003 – March 31, 2004
Exhibit 3 to OIG's Strategic Plan

Edward Kelley
Inspector General

OIG'S ANNUAL AUDIT PLAN

Foreword

This annual audit plan, presented as Exhibit 3 to OIG's strategic plan, identifies the audit activity planned for the period April 1, 2003 through March 31, 2004. The audit activities were selected because of: 1) their relevance to the Finance Board's management officials, 2) the vulnerability of the area to be audited, and 3) the statutory mandate. The planned audit activity is subject to change due to unanticipated matters of higher priority. Such changes will be communicated to the Chairman and other Board Members, as appropriate.

The results of OIG audit activity will be reported to Finance Board management on an ongoing basis. The results of this audit activity will also be reported in the Inspector General's Semiannual report to the Congress as required by the Inspector General Act.



Edward Kelley
Inspector General

OFFICE OF INSPECTOR GENERAL

Audit Plan for April 1, 2003 – March 31, 2004

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INTRODUCTION

The Office of Inspector General (OIG) provides independent, professional audits, and investigations of the financial and operational activities of the Federal Housing Finance Board (Finance Board). The audits are performed in accordance with generally accepted government auditing standards, as set forth in the U.S. Comptroller General's Government Auditing Standards. The office conducts investigations in conformance with Quality Standards for Investigations issued by the President's Council on Integrity and Efficiency and Executive Council on Integrity and Efficiency. The office also performs other reviews and projects upon request by the Chairman and the Board that may involve the Federal Home Loan Banks and related entities.

For its audit responsibilities, OIG has established a plan of activities for the period April 1, 2003 – March 31, 2004, that are designed to meet Goal 1, Objectives B and C of OIG's strategic plan. Specifically, the planned audits support the Finance Board's mission and help to prevent fraud, waste, and abuse. Audits are selected based upon: (a) the results of our audit activities for April 1, 2002 – March 31, 2003; (b) the Finance Board's strategic plan; (c) recommendations of agency managers; (d) predetermined criteria – as set forth on page five; (e) the professional standards and requirements of the Comptroller General, the American Institute of Certified Public Accountants, and the Office of Management and Budget; and (f) Congressional emphasis on combating fraud, waste, and abuse.

This audit plan takes into consideration, but does not document, OIG resources committed to other OIG functions such as investigations and legislation/regulation reviews. The audit plan is subject to revision during the year, as priorities may shift because of: (a) unanticipated changes in the agency's strategic plan; (b) matters found during our audit work, (c) special projects requested in addition to those presently anticipated, or (d) other circumstances which are unforeseen at this time. The plan has been developed based on the current authorized staffing level of OIG, and the timeframes noted have been broadened to accommodate a variety of other work-related activities and projects that may be requested during the period.

OVERVIEW OF AUDIT RESPONSIBILITIES AND DEFINITIONS

The term "audit" is used to describe work performed by auditors in examining financial statements, as well as work performed in reviewing compliance with applicable laws and regulations, the economy and efficiency of operations, and the effectiveness in achieving program results. These audits are prepared in accordance with generally accepted government auditing standards and vary in scope and complexity. They may be detailed and complex in scope or they may be limited reviews and inspections. A "survey" is the first phase of an audit and is performed to identify areas where more detailed audit work is warranted. The [Government Auditing Standards](#), promulgated by the U.S. General Accounting Office, identify the following three types of audits:

Financial audits include determining whether: (a) financial information is presented in accordance with established or stated criteria; (b) the entity has adhered to specific financial compliance requirements; and (c) the entity's internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Economy and efficiency audits include determining: (a) whether the entity is acquiring, protecting, and using its resources (such as personnel, property, and space) economically and efficiently; (b) the causes of any inefficiencies or uneconomical practices; and (c) whether the entity has complied with laws and regulations concerning economy and efficiency.

Program audits include determining: (a) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved; (b) the effectiveness of organizations, programs, activities, or functions; and (c) whether the entity has complied with significant laws and regulations applicable to the program.

The [Inspector General Act of 1978](#), as amended, added a fourth dimension to auditing, by charging auditors within the Federal establishment with the responsibility for identifying potential or actual instances of waste and fraud in government activities. This responsibility is also included in the [Government Auditing Standards](#).

PROJECTS COMPLETED FROM APRIL 1, 2002 – MARCH 31, 2003

OIG's Audit Plan for the period April 1, 2002 – March 31, 2003, was based on planned staffing of the IG, two full time auditors, one full time Counsel to the IG, and one full time Administrative Office Manager. For most of the period, the auditor positions have remained vacant because Finance Board management has not authorized the funding to fill these budgeted and authorized positions. As a result, five audits planned for this period, were not initiated or completed. Despite the staffing shortage, OIG completed the following audits and related projects:

1. A semiannual report to the President and the Congress for the period October 1, 2001 to March 31, 2002 issued May 1, 2002.
2. An update of the Office of Inspector General's *Five Year Audit Plan* for the Finance Board issued April 30, 2001.
3. An audit of the Use of Individually Assigned Government Credit Cards (Contract) issued February 27, 2002.
4. An audit of the Finance Board's fiscal year 2001 Financial Statements (Contract) issued May 15, 2002.
5. An audit of the Propriety of Reception and Representation Account Transactions (Contract) issued July 18, 2002.
6. An audit of the Thoroughness of Examinations Coverage issued July 22, 2002.
7. A limited review report on the Finance Board's implementation of the Federal Managers' Financial Integrity Act issued February 21, 2003.
8. An audit of the Finance Board's Compliance with the Government Information Security Reform Act issued September 11, 2002.
9. Thirteen preliminary investigations and two full investigations.
10. A semiannual report to the President and the Congress for the period April 1, 2002 to September 30, 2002 issued December 13, 2002.
11. OIG's vulnerability assessment for fiscal year 2002.
12. Reviews and comments on various proposed agency policies and procedures.

AUDIT RANKING CRITERIA

This year's audit plan was developed from a list of potential audit areas that were rated according to the following criteria:

1. The priority of the Chairman and/or Members of the Board of Directors,
2. Based on the Finance Board's strategic plan, the relative importance of the program or activity to the Finance Board's mission,
3. The amount of Finance Board resources committed to the program or activity,
4. The potential for fraud, waste, or abuse to occur in the program or activity,
5. Management needs identified through consultation with primary organization heads,
6. Legislative or regulatory requirement and/or Congressional, Office of Management and Budget (OMB), or General Accounting Office (GAO) recommendations,
7. The extent of audit coverage provided by GAO, consultants or other entities,
8. The newness, changed conditions, or sensitivity of the program or activity,
9. The existence of required in-house staff expertise,
10. The adequacy of internal control systems in place for the program or activity, and
11. The extent of outstanding issues resulting from prior audit coverage or review by OIG and other audit entities.

In applying these criteria for the April 1, 2002 – March 31, 2003 audit year, we selected the audits, surveys, management reviews, and liaison activities that are represented under appropriate captions on the following pages.

PLANNED AUDIT ACTIVITIES FOR APRIL 1, 2003 – MARCH 31, 2004

Audit of the Effectiveness of the Examiner Recruitment and Selection Process

Audit of the Reasonableness of the Methodology and Conclusions of the Hay Study

Survey of the Office of General Counsel (Contract)

We will review the various regulations, policies, and procedures that outline the various OGC responsibilities and will review OGC operations to determine if adequate controls exist to meet these responsibilities.

Planned period for audit: March 2003

Audit of FHFB's Contracting for Services (Contract)

We will review the Finance Board's policies and procedures for contracting for services, assess whether our procedures deviate from federal regulations, and review controls over the cost of service contracts.

Planned period for audit: March 2003

Process for Selecting Public Interest Directors

We will review the various regulations, policies, and procedures that outline the process for selecting FHLBank Public Interest Directors and will assess the Finance Board's compliance.

Planned period for audit: April – June 2003

*Audit of the Process for Developing the Finance Board's Strategic Plan
(Contract)*

We will conduct a compliance audit of the process used to develop the Finance Board's Strategic Plan. The scope will include whether current performance measures appear adequate to determine progress towards meeting the objectives of the Finance Board's Strategic Plan.

Planned period for audit: June – August 2003

Follow-up on Completed Audits

We will follow-up with Finance Board managers to determine the extent to which corrective actions have been taken on audit recommendations.

Planned period for follow-up: Quarterly

Audit of Ratified and Terminated Contracts in Excess of \$2,500

We will audit all contracts terminated/ratified during the period April 1, 2003 through March 31, 2004 to assess whether the Finance Board received services and/or goods consistent with the amounts paid to contractors.

Planned period for audit: As appropriate.

LEGISLATED REPORTING REQUIREMENTS

Semiannual Reports to Congress

In accordance with the Inspector General Act of 1978, as amended (IG Act), we will prepare and transmit to the Congress semiannual reports on the activities of the Inspector General Office at the Finance Board. We will prepare, no later than April 30, 2003 and October 31, 2003, semiannual report that summarize OIG activities during the immediately preceding six-month periods ending March 31, 2003 and September 31, 2003. OIG semiannual reports will be furnished to the Chairman of the Finance Board and in accordance with the IG Act, within 30 days of receiving the reports; the Chairman is required to transmit the report and certain other information to the appropriate committees and subcommittees of the Congress.

Planned period for project: April and October 2003

SPECIAL PROJECTS

Because of our auditing, accounting, and operational expertise and familiarity with the operations of the entire Finance Board, the Office of Inspector General is available to perform special projects and offer advice as requested by the Chairman, members of the Board of Directors, and Finance Board management. From time to time, matters come to our attention during the year that are not anticipated when the audit plan is established. Such matters may be documented internally for consideration in a scheduled audit. If the matter does not relate to a scheduled audit, we determine if immediate action is required, and if such action will significantly alter our scheduled work. The Chairman and other Board members will be advised of changes to the audit plan that result from unscheduled work.